Saudi Electricity Company

4Q2018 Results Review

6 February 2019

السعودي الفرنسي كابيتال
Saudi Fransi Capital

Unbundling Back on the Table

SAR 16	Hold
12-Month Target price	Recommendation

SECO announced disappointing quarter underscored by -2.6% Y/Y decline in sold energy (55.5 twh). As highlighted in our Update note of 6-Jan, residential and commercial consumption deteriorated during the year, -5% and -14%, respectively. Media reports indicate that unbundling is back on the table. Interestingly, tariff increase may no longer by a requisite as realized tariff (net of govt fees) in 2018 was 16.1 hal/kwh versus blended production cost of 6.7 hal. Until further progress emerges, maintain Hold and SAR 16 target price.

Weak consumption moderated by favorable customer mix

4Q total revenues of SAR 13.0 bln (+14% Y/Y) were buoyed by tariff increase effective Jan-2018. However, adjusting for tariff hike implies -11% decline in energy sales to SAR 8.9 bln. For the year, SECO sold 282.1 twh (-2.2% Y/Y) of energy stemming from -5% drop in residential and -14% Y/Y decline in commercial sales on rationalization and potential business closures. Conversely, higher value industrial consumption increased +11% and government +6% Y/Y, comprising 18% and 15% of total sales, respectively. While energy sold/customer declined -6% Y/Y, revenue/customer increased +26% Y/Y – affirming trend of higher value contribution.

Reliance on increased purchased energy drives margin lower

Gross loss for the quarter widened to SAR 2.4 bln from SAR 1.0 bln due to SAR 14.7 bln clawback as government fees and increased purchased energy. SECO's own energy producton declined to 191 twh (-6% Y/Y) while more expensive purchased energy increased +8% Y/Y to 91 twh, which we estimate costs 9.1 hal/kwh. In our Update note of 6-Jan-2019, we highlighted disproportionate impact of purchased energy in cooler months.

Capex cut 32%

As the Company scales back generation capacity, capex will also reduce. During 2018, capex was cut 32% to c. SAR 30 bln. Other associated benefits include O&M expense (-5% Y/Y) and gradual decline in debt financing.

Substantial earnings weakness

Net loss for the quarter was SAR 3.8 bln versus SAR 5.5 bln in corresponding period of last year, which was impacted by SAR 2.6 bln HR productivity expense. Even after adjusting for one-off expense, net loss disappointed. Key to earnings recovery in 2019 will be consumption, particularly from higher value industrial users. On the expense side, we expect further rationalization of fixed costs as SECO scales back generation capacity.

SECO (SAR mln)	4Q18	4Q18E	4Q17	Y/Y Chg	3Q18	Q/Q Chg	Consensus
Revenues	13,032	15,533	11,476	14%	22,135	-41%	14,267
Electricity sales	11,819	14,431	9,996	18%	20,980	-44%	
Meter reading	330	325	317	4%	328	1%	
Connection tariff	540	321	676	-20%	357	51%	
Transmission	227	410	405	-44%	136	67%	
Other	115	46	82	40%	334	-66%	
Gross profit	(2,377)	1,324	(957)	148%	6,175	-138%	
Gross margin	-18.2%	8.5%	-8.3%		27.9%		
EBITDA	2,189	5,796	105	1985%	9,943	-78%	4,016
EBITDA margin	16.8%	37.3%	0.9%		44.9%		
Operating profit	(2,133)	1,057	(3,845)	-45%	5,982	-136%	(725)
Operating margin	-16.4%	6.8%	-33.5%		27.0%		
Net income	(3,773)	279	(5,521)	-32%	4,925	-177%	(1,709)
Net margin	-29.0%	1.8%	-48.1%		22.2%		
EPS (SAR)	(0.91)	0.07	(1.33)	-32%	1.18		(0.41)

Stock Details		
Last Close Price	SAR	17.36
Upside to target	%	(7.8)
Market Capitalization	SAR mln	72,315
Shares Outstanding	mln	4,166
52-Week High	SAR	23.44
52-Week Low	SAR	14.34
Price Change (YTD)	%	14.7
3-Mth ADTV	mln	1.6
DPS 2019E	SAR	0.50
Reuters / Bloomberg	5110.SE	SECO AB

SFC Estimates	2018	2019E
Revenues (mln)	64,064	64,638
Gross Profit	5,909	6,932
EBITDA (mln)	22,814	25,202
Net Income (mln)	1,785	6,188

Price Multiples	2018	2019E	2020E
P / E	40.5x	11.7x	20.9x
Adj EV / EBITDA	7.8x	7.0x	7.4x
P / S	1.1x	1.1x	1.1x
P / B	1.0x	0.9x	0.8x

1-Year Share Performance (Rebased)

Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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